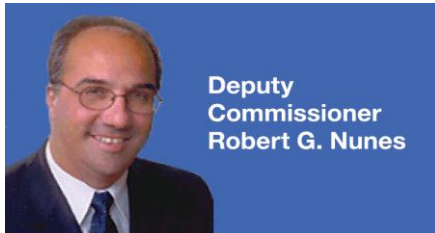


A Publication of  
the Massachusetts  
Department of Revenue's  
Division of Local Services

# City & Town

Amy Pitter, Commissioner • Robert G. Nunes, Deputy Commissioner & Director of Municipal Affairs



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**City & Town** is published by the Massachusetts Department of Revenue's Division of Local Services (DLS) and is designed to address matters of interest to local officials.

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## What's Happening with the Motor Vehicle Excise?

### Municipal Data Management and Technical Assistance Bureau

With all of the recent discussion around transportation funding, we thought it would be an opportune time to review the role of the motor vehicle excise (MVE) in municipal finance. In the analysis that follows, we examine the recent performance of this local receipt in terms of both budget estimates and actual collections and discuss some of the underlying reasons for recent trends. We evaluate whether lackluster performance of the MVE foreshadows a long-term trend where this revenue source continues to decline in prominence or whether recent declines are the natural result of the recession and will rebound as the economy improves.

Pursuant to MGL c.60A, the motor vehicle excise is imposed for the privilege of registering a motor vehicle in Massachusetts. Although most people view Proposition 2 1/2 as a limit on property taxes, the initiative petition approved by Massachusetts voters in 1980 also lowered the motor vehicle excise rate from \$66 per thousand to the current \$25 per thousand rate. The amount of the excise is calculated by multiplying the value of the vehicle by this \$25 per thousand tax rate. The valuation for a particular vehicle starts with the manufacturer's suggested retail

price rather than the actual sale price and then this value is multiplied by the percentage in the statutory depreciation schedule shown below:

**In the year preceding the year of manufacture: 50%**

**In the year of manufacture: 90%**

**In the second year: 60%**

**In the third year: 40%**

**In the fourth year: 25%**

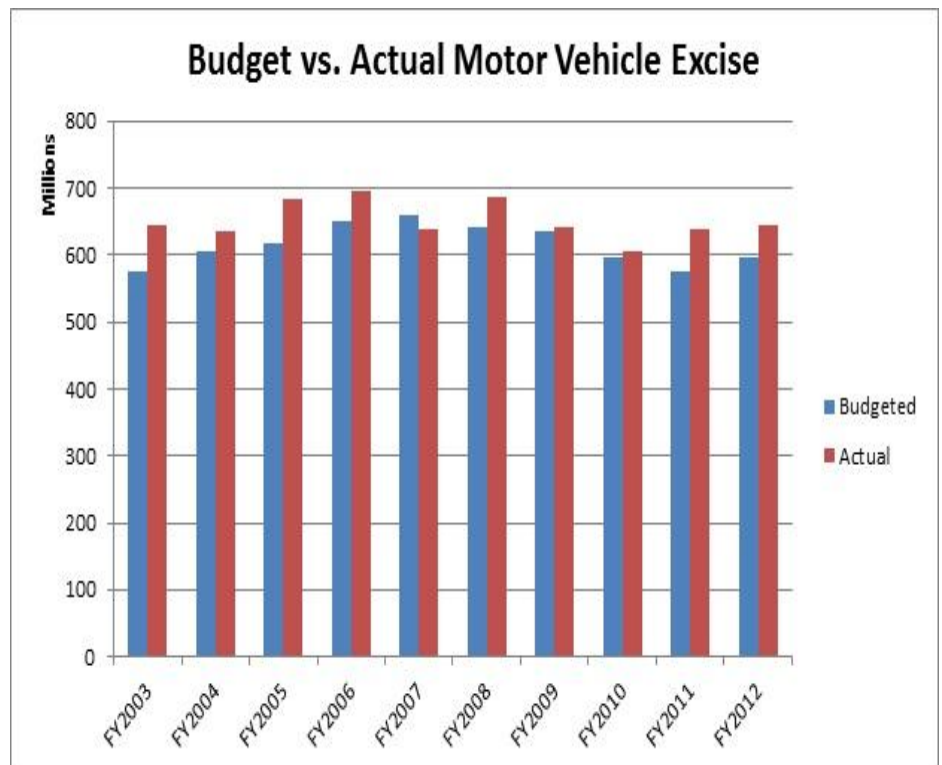
**In the fifth and succeeding years: 10%**

It isn't hard to see a potential problem with this depreciation schedule as the valuation decreases sharply from 90 percent in the first year to 60 percent in the second year. In order for the MVE to be a steady, reliable revenue source for municipalities, new cars must be purchased at a rate at least roughly as great as the year before. When this doesn't happen, revenues from MVE decline and become a less significant factor in local budgets. To illustrate, though MVE revenue contributed 3.44 percent of total estimated municipal revenues statewide in FY2003, by FY2013 this revenue had become less important dropping to 2.59 percent as a percent of total estimated revenues.

Although the MVE may be declining as a revenue source, it still comes with a significant workload at the local level. For example, most municipalities annually issue approximately one MVE bill per resident. Of the state's 351 communities, 221 issued at least one bill per resident, with the island community of Chilmark being the only community in the state to issue two bills for every resident. The other towns on Martha's Vineyard and Nantucket follow closely behind Chilmark in this ranking. Other communities high on the list tend to be on Cape Cod or in the Berkshires. In these locations, numerous vacation homes where vehicles may be garaged tend to drive up the bill numbers. In the majority of the state's largest cities, where parking may be limited and public transit is a viable option, the number of bills issued may be as low as five or six bills for every ten residents.

Next, we look at the data on estimated and actual MVE from FY2003 through FY2013 (See chart below). Noteworthy is the

fact that the FY2013 estimated receipts from MVE totaled \$605.9 million statewide, yet this level still lagged previous estimated totals from this source used in setting tax rates from FY2005 through FY2009. Actual motor vehicle excise collections over the ten year period from FY2003 through FY2012, peaked in FY2006 at \$694.3 million, but by FY2010 actual revenue from this source statewide had decreased to \$605.2 million. Compared to the FY2006 peak, this was a decrease of close to \$90 million or 12.8 percent and was the low point for the ten year period. Revenues gradually rebounded in subsequent years, hitting \$637.1 million in FY2011 and \$644.5 million by FY2012. Despite this growth, actual FY2012 revenues did not match the peak performance of this receipt between FY2005 and FY2008 in 338 of the state's 351 communities. ([See spreadsheet for detail](#))



Although common sense dictates that people will defer large purchases such as motor vehicles when the economy is poor, a review of the average age of motor vehicles offers empirical support for this axiom. A review of data from the Registry of Motor Vehicles reveals that the state average vehicle age in calendar 2003 was only 8.13 years, though by calendar 2011 this average had risen to 11.18 years, an increase of more than three years.

<u>Year</u>	<u>Average Vehicle Age</u>
FY2003	8.13
FY2004	8.43
FY2005	8.65
FY2006	8.87
FY2007	9.80
FY2008	10.09
FY2009	9.89
FY2010	10.30
FY2011	11.18
FY2012	10.03

These findings are reflected in national markets as well. According to automotive market research firm R. L. Polk, the average age of all passenger cars and light trucks in the United States reached an all-time high in 2013 of 11.4 years.<sup>(1)</sup> Polk projected this trend will continue for the next few year, but forecast growth for vehicles that were zero to five years old, in part reflective of pent-up demand for new vehicles given the decline in new vehicle registrations over the past five years. When assessed in the context of the depreciation table shown earlier, the increasing average age of vehicles highlights an underlying issue that may impact the future performance of MVE revenues.

Though the economic recession that began in the fall of 2008 explains some consumer reluctance to replace their vehicles, are there other influences at work here as well? One factor is that vehicles actually last longer now than they did in say the 1960s and 1970s. It was not uncommon for the bodies of cars of this vintage to "rust out," often well before mechanical systems failed. Now, with better undercoating and anti-corrosive protection, this seems to happen much less frequently even with the high use of road salt during New England winters. Environmental regulations around emissions have also forced automakers to "reduce the amount of oil being used by the engine to reduce the oil that reaches the catalytic converter." At the same time, materials used in engines now frequently use extremely hard "carbon finishes" to minimize wear on engine parts.<sup>(2)</sup> Given that the average age of vehicles has been trending up since 2000, well before the recession began, indications are that longer lasting vehicles are likely a contributing factor to this trend as well.

Recent national sales reports signal that August 2013 was a very strong month for auto sales. When these sales are projected on a seasonally adjusted annualized basis, new auto sales in 2013

are expected to come close to or equal the pre-recession 2007 level. (3) While this is promising news, it's too early to tell if this represents a one-time event reflective of low interest rates for new cars and pent up demand left over from the recession years or if it reflects a more sustainable trend for future years.

### Conclusion

Although the MVE is considered a general fund revenue that may be spent for any lawful municipal purpose, it isn't hard to make a connection between this revenue source and local transportation needs. However, analysis shows that the MVE is not a recession proof local receipt and that underlying market factors such as longer lasting vehicles may limit future growth of this revenue given the current depreciation schedule. While the MVE is often viewed by assessors, tax collectors and taxpayers alike as a nuisance, reconsideration of the depreciation scale set out in the statute may be in order. Recognizing that recently manufactured vehicles are more durable and have longer useful lives, a more gradual depreciation of the valuation would strengthen the long-term outlook for this revenue.

- 1.) R. L. Polk and Co., "Polk finds Average Age of Light Vehicles Continues to Rise," August 6, 2013
- 2.) Dexter Ford, "As Cars Are Kept Longer, 200,000 Is New 100,000," New York Times, March 16, 2013
- 3.) Angelo Young, "August 2013 US Auto Sales: Detroit Three Sold 662,669 Vehicles in US Last Month", International Business Times, September 4, 2013

## **Ask DLS**

This month's *Ask DLS* question comes from Town of Hardwick Assessor Jen Kolenda and is about the Levy Limit Worksheet. Jen asks...

### **What amounts may be included as "Other Adjustments" on the FY2014 Levy Limit Worksheet?**

Other adjustments to the levy limit are for general laws or special acts that authorize such an increase. Three examples include (1) the Cape Cod Commission annual assessment, (2) Chapter 111 s127B1/2 that exempts appropriation or borrowing for underground storage tank removal, removal of dangerous levels of lead paint, or repair, replacement or upgrade of a home's septic system and (3) assessment of debt service upon the

members of the Greater New Bedford Refuse Management District and Martha's Vineyard Regional Refuse Disposal District.

We'd like to hear from you. Please send any questions you may have to [cityandtown@dor.state.ma.us](mailto:cityandtown@dor.state.ma.us).

## **Locations? Locations? Locations?**

The Division of Local Services conducts trainings, workshops and seminars throughout the year across the Commonwealth. As an organization with offices in Boston, Worcester and Springfield, we make a concerted effort to accommodate our stakeholders in a variety of locations and are always looking for different parts of the state to host these events.

In order to continue to provide low and no-cost learning opportunities, we are compiling a list of communities with free space available for future events. This could include a conference room in the library, city or town hall, a senior center, or any similar public building. Ideally, we are looking for a space that could hold 60 individuals in a classroom setting or 75+ in an auditorium setting. Wireless internet accessibility and overhead projectors are also appreciated.

We greatly appreciate any and all suggestions. If your community is willing to host a DLS workshop, event or training, please contact Training Coordinator Donna Quinn at [dlsregistration@dls.state.ma.us](mailto:dlsregistration@dls.state.ma.us).

## **Municipal Health Care Reform Forum Scheduled for December 3rd in Boston**

Mayors, managers, and human resource officials involved in the implementation of municipal health reform are invited to the Metropolitan Area Planning Council's (MAPC) breakfast forum on Tuesday, December 3, 2013, for an informal discussion with Dolores L. Mitchell, Executive Director of the Group Insurance Commission (GIC). This event will be held at MAPC's office at 60 Temple Place, 3<sup>rd</sup> Floor, Boston, MA from 9-11:30 AM. Space is limited. Please RSVP by Wednesday, November 27th to Nicholas Downing at [ndowning@mapc.org](mailto:ndowning@mapc.org) or at (617) 933-0711.

# Community Innovation Challenge Application Deadline is Tomorrow

The application deadline for the third round of the Community Innovation Challenge grant program is Friday, November 22<sup>nd</sup>. The CIC program supports innovative projects at the local level, including regionalization. Over the past two years, the Patrick Administration has invested \$6.25 million in 49 unique projects involving 197 municipalities across the Commonwealth.

For more information on the CIC program, including the application, please visit: <http://www.mass.gov/ANF/CIC>.

Please contact [cicgrants@state.ma.us](mailto:cicgrants@state.ma.us) with any questions. Awards will be announced in February.

## **November Municipal Calendar**

### **1 - Taxpayer - Semi-Annual Tax Bill - Deadline for First Payment**

According to M.G.L. Ch. 59, Sec. 57, this is the deadline for receipt of the first half semi-annual tax bills or the optional preliminary tax bills without interest, unless bills were mailed after October 1, in which case they are due 30 days after mailing.

### **1 - Taxpayer - Semi-Annual Tax Bills - Application Deadline for Property Tax Abatement**

According to M.G.L. Ch. 59, Sec. 59, applications for abatements are due on the same date as the first actual tax installment for the year.

### **1 - Taxpayer - Quarterly Tax Bills Deadline for Paying 2nd Quarterly Tax Bill Without Interest**

### **1 - Treasurer - Deadline for Payment of First Half of County Tax**

### **15 - DESE - Notify Communities/Districts of Any Prior Year School Spending Deficiencies**

By this date, or within 30 days of a complete End of Year Report (see September 30), DESE notifies communities/districts in writing of any additional school spending requirements.

### **30 - Accountant - Submit Schedule A for Prior Fiscal Year**

This report is a statement of the revenues received, expenditures made and all other transactions related to the community's finances during the previous fiscal year. The Schedule A classifies revenues and expenditures into detailed categories that will provide information essential for an analysis of revenues and expenditures generated by various departments. This data, like other financial information reported to DOR, is entered into DOR's Municipal Data Bank; as such, the Department may provide time series, comparative and other types of analyses at the request of a city or town. This information is also sent to the US Census Bureau and eliminates a prior year federal reporting requirement. Failure to file by November 30th may result in withholding major distributions of state aid until the Schedule A is accepted by BOA.

### **30 - Selectmen/Mayor - Review Budgets Submitted by Department Heads**

This date will vary depending on dates of town meeting.

**30 - Treasurer - Notification of monthly local aid distribution.** Click [www.mass.gov/treasury/cash-management](http://www.mass.gov/treasury/cash-management) to view distribution breakdown.

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